

**Commonwealth of Kentucky  
Department of Insurance**

**Explanatory Notes  
for forms LC-1 and LC-2**

Insurers may file modifications to the prospective loss costs in the Reference Filing based on their own anticipated loss experience. This includes modification to any loss adjustment expenses that may be reflected in the advisory organization's Reference Filing. Supporting documentation may be required for any modifications (upwards or downwards) to the prospective loss costs in the Reference Filing.

Advisory organization loss costs may not fully reflect all loss adjustment expenses. Each Reference Filing will clearly explain what loss adjustment expenses are included in the loss costs. Item 3 in the "Calculation of Loss Cost Multiplier" (LC-1) shall be used to provide for those loss adjustment expenses not included in the prospective loss costs. Modification to any loss adjustment expense provisions included in the advisory organization's prospective loss costs should be included in the insurer's Loss Cost Modification in Item 2 of the LC-1 form.

- If the Reference Filing does not include a provision for **any** loss adjustment expenses, the insurer's filing shall make provision for **all** loss adjustment expenses.
- If the Reference Filing includes a provision for only **allocated** loss adjustment expenses, the insurer's filing shall make provision for **unallocated** loss adjustment expenses.
- If the Reference Filing includes a provision for **all** loss adjustment expenses, the insurer's filing shall make **no** provision for loss adjustment expenses, other than any modification to the advisory organization's reflection of loss adjustment expenses being made based on the insurer's own experience. Enter a factor of 1.000 for Item 3 on the LC-1 form.

Insurers may vary expense loads by individual classification, grouping, or subline of insurance. Insurers may use variable or fixed expense loads or a combination of these to establish their expense loadings. If an insurer wishes to file an **expense constant**, it may use the "Expense Constant Supplement" (LC-2), or other identified alternate methodology.

By checking the appropriate box in item 8, an insurer that is required by law to file its rates may elect to have its loss cost adjustments apply onto to a specific advisory organization Reference Filing, or also applicable to all future Reference Filings. The insurer's rates will be the combination of the advisory organization loss costs and the insurer's on-file loss cost adjustments, and will apply to policies written on or after the **effective** date of the advisory organization's future Reference Filings.

- If an insurer that has filed to have its loss cost adjustments remain on file intends to delay, modify, or not adopt a particular advisory organization Reference Filing, the insurer must make an appropriate filing with the Insurance Department.
- Additionally, the insurer must give consideration to the flex barrier and if adoption of an advisory organization's Reference Filing will cause the barrier to be pierced then prior approval is required.